

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 OMB-01 TRSE-00 ACDA-12
CIAE-00 DODE-00 PM-05 H-01 INR-10 L-03 NSAE-00
NSC-05 PA-01 SP-02 SS-15 ICA-11 /087 W
-----034269 191657Z /42 L

R 181528Z AUG 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC 8648
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
USMISSION USNATO
COMICEDEFOR KEFLAVIK IC
CINCLANT NORFOLK VA
CINCEUR VAIHINGEN GE

C O N F I D E N T I A L REYKJAVIK 1089

E.O. 11652: GDS
TAGS: PINT, IC
SUBJECT: PEOPLE'S ALLIANCE AND SOCIAL DEMOCRATS MOVING TOWARD
AGREEMENT?

REF: (A) REYKJAVIK 1075 DTG 161730Z AUG 78; (B) REYKJAVIK
1082 (NOTAL)

1. UPON RECEIVING MANDATE FROM PRESIDENT ELDJARN TO FORM
MAJORITY GOVERNMENT, PEOPLE'S ALLIANCE (PA) CHAIRMAN LUDVIK
JOSEPSSON STATED THAT HIS FIRST ATTEMPT WOULD BE TO REVIVE
POSSIBILITY OF THREE-PARTY LEFT-OF-CENTER COALITION AMONG PA,
SOCIAL DEMOCRATS (SDP), AND PROGRESSIVES (PP). HOWEVER AS
BILATERAL DISCUSSIONS BETWEEN PA AND SDP CONTINUE, THERE IS
GROWING EVIDENCE THAT TWO PARTIES ARE COMING TO AGREEMENT ON
KEY POINTS AND THAT POSSIBILITY OF PA-SDP CONDOMINIUM IS
IN THE WORKDS.

2. MEETING AMONG REPRESENTATIVES OF THREE PARTIES
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ORIGINALLY SCHEDULED FOR AUGUST 17 HAD BEEN POSTPONED ONE
DAY IS NOW DELAYED SECOND DAY. MEANWHILE, PA AND SDP
CHAIRMAN MET PRIVATELY AUGUST 18 AND FURTHER TALKS BETWEEN
TWO SIDES ARE PLANNED FOR TODAY. EMBASSY UNDERSTANDS
THAT FOR MORE THAN A WEEK (DURING PERIOD WHEN INDEPENDENCE
PARTY CHAIRMAN GEIR HALLGRIMSSON HELD MANDATE TO FORM
GOVERNMENT), PA AND SDP HAD BEEN HOLDING PRIVATE ONE-ON-

ONE MEETINGS. IT HAS NOW BEEN ANNOUNCED THAT PLAN FOR NEGOTIATIONS FOCUSES ON SMALL GROUPS MEETING SIMULTANEOUSLY TO IRON OUT DISAGREEMENTS AND NOT ON THE FULL-DRESS TALKS AMONG ALL PARTIES THAT HAD CHARACTERIZED EARILER ROUNDS OF THE COALITION-BUILDING PROCESS.

3. THESE PRIVATE, UNPUBLICIZED MEETING HAVE ALREADY LED TO PROGRESS ON SEVERAL POINTS. WE UNDERSTAND THERE HAS NOW BEEN AGREEMENT TO END LIMITATIONS ON COST-OF-LIVING WAGE INCREASES IMPOSED BY PRESENT GOVERNMENT AND AGREEMENT THAT KRONA WILL BE DEVALUATED. AGREEMENT ON LATTER, LONG RESISTED BY PA, WAS ACCEPTED WHEN SDP AGREED TO DELAY EFFECTS OF DEVALUATION (DETAILS OF THIS UNDERSTANDING AND HOW IT COULD BE DONE ARE NOT KNOWN). IN ADDITION, PEOPLE'S ALLIANCE HAS SAID THAT IT WOULD BE WILLING TO SET ASIDE FOR THE PRESENT ITS DEMAND FOR WITHDRAWAL OF ICELAND DEFENSE FORCE IN ORDER TO ALLOW PROSPECTIVE COALITION TO DEAL WITH PRESSING ECONOMIC MATTERS.

4. AGREEMENT BETWEEN PARTIES IS STILL NEEDED ON OTHER ISSUES. WAGE AND PRICE POLICY HAS NOT BEEN SETTLED, AND THERE IS NO INDICATION THAT GAP BETWEEN PA AND SDP VIEWS ON BANK INTEREST POLICY HAS BEEN CLOSED. HOWEVER, DESPITE PERSONAL ANIMOSITY THAT REMAINS BETWEEN SOCIAL DEMOCRATS AND MEMBERS OF PA, INCLUDING THAT BETWEEN JOSEPPSON AND GRONDAL, THERE IS CLEARLY AN INCREASED CONFIDENTIAL

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WILLINGNESS TO OVERCOME DIFFERENCES. AUGUST 18 NEWS STORY BY REPORTER WITH GOOD SOURCES WITHIN PARTY GROUPS SAID THAT PA-SDP AGREEMENT IS NOT FAR OFF AND THIS ECHOES VIEW WE HAVE HEARD FROM OTHER WELL PLACED SOURCE THAT FORMATION OF LEFT-OF-CENTER GOVERNMENT MAY BE NEAR.

5. THERE IS STILL QUESTIION ABOUT WHERE THIS LEAVES PROGRESSIVES. PP NOW SAYS IT WILL NOT SUPPORT MINORITY PA-SDP GOVERNMENT, BUT PROGRESSIVES HAVE BEEN KEPT OUT OF BILATERAL TALKS UP TO THIS POINT. SOME SOCIAL DEMOCRATS HAVE PRIVATELY EXPRESSED VIEW THAT THEY WOULD PREFER THAT PP NOT BE PART OF GOVERNMENT, AND LEADER OF PA PARLIAMENTARY GROUP PUBLICLY STATED THAT HE WOULD RATHER ESTABLISH MINORITY PA-SDP GOVERNMENT THAN HAVE PP PARTICIPATION. FOR THE MOMENT, HOWEVER, THREE-PARTY COALITION REMAINS ANNOUNCED GOAL OF THIS ROUND OF NEGOTIATIONS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ALLIANCE, AGREEMENTS, SOCIAL DEMOCRATS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978REYKJA01089
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780340-0388
Format: TEL
From: REYKJAVIK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780848/aaaaboai.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 495de360-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 REYKJAVIK 1075
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1694032
Secure: OPEN
Status: NATIVE
Subject: PEOPLE'S ALLIANCE AND SOCIAL DEMOCRATS MOVING TOWARD AGREEMENT?
TAGS: PINT, IC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/495de360-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014